

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CASS DISTRICT LIBRARY	County Cass
Audit Date 12/31/05	Opinion Date 1/20/06	Date Accountant Report Submitted to State: 2/10/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

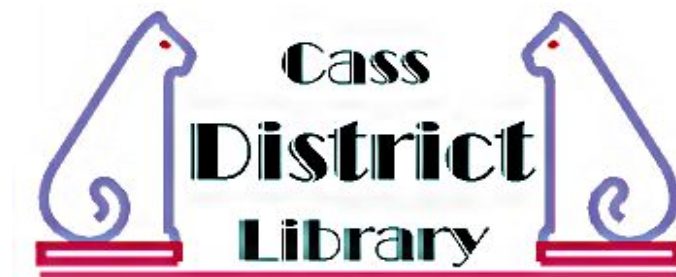
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) SCHAFFER & LAYHER, PLLC			
Street Address 805 VAN BRUNT AVENUE	City ST. JOSEPH	State MI	ZIP 49085
Accountant Signature		Date 1/20/06	



CASS DISTRICT LIBRARY

**FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION**

For the Year Ended December 31, 2005

LIBRARY BOARD MEMBERS

<u>Office</u>	<u>Official</u>	Appointed <u>by:</u>	<u>From:</u>	Term <u>Expires:</u>
President	Eileen Adams	Howard Township	Howard Township	12/31/2009
Vice President	Grafton Cook	County of Cass	Pokagon, Milton & Jefferson Twps.	12/31/2007
Treasurer	Hank Yeomans	County of Cass	At Large	12/31/2008
Trustee	Mary Anne Hoebeke	Village of Edwardsburg	Village of Edwardsburg	12/31/2007
Trustee	Sue Toth	Mason Township	Mason Township	12/31/2009
Trustee	Mary Dunn	LaGrange Township	LaGrange Township	12/31/2008
Trustee	Robert Mette	County of Cass	Ontwa, Calvin & Porter Twps.	12/31/2006
Trustee	Ronald Francis	County of Cass	Volinia, Penn, & Newberg Twps.	12/31/2008

EXECUTIVE DIRECTOR

Jennifer Ray

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Cass District Library

We have audited the accompanying financial statements of the governmental activities and each major fund of the Cass District Library as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Cass District Library as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis and budgetary comparison information on pages 2 through 4 and page 16, are not a required part of the basic financial statements, but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Schaffer & Layher". The script is cursive and fluid.

Schaffer & Layher
January 20, 2006

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

As management of the Cass District Library (the "Library"), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the years ended December 31, 2005 and 2004.

FINANCIAL HIGHLIGHTS

- ✓ The assets of the library exceeded its liabilities at the close of the most recent year by \$350,707, and of this amount, \$151,213 is unrestricted and may be used to meet the Library's ongoing obligations to citizens and creditors.
- ✓ The library's total net assets decreased by \$167,856 and 42,501 for 2005 and 2004, respectively.
- ✓ As of the close of the current year, the Library's governmental fund reported an ending fund balance of \$157,304. For this year expenditures exceeded revenues by \$36,009. All is available for spending, with some board designations that can be changed.
- ✓ At the end of the current year, unreserved fund balance for the general fund was \$157,304 or 16.22% and \$193,313 or 21.99% of the total general fund expenditures for 2005 and 2004, respectively.

OVERVIEW OF FINANCIAL STATEMENT

This annual report consists of three parts – *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the library:

- The first column of the financial statement includes information on the Library's general fund under the modified accrual method. The *fund financial statements* focus on the current financial resources and provide a more detailed view about the accountability of the library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *library as whole financial statement* column provides both *long-term* and *short-term* information about the Library's overall financial status. The statement of net assets and the statement of net activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve overtime as a useful indicator of the government's financial position. In the case of the library, assets exceeded liabilities by \$350,707 at the close of the most recent year. The largest portion of the Library's net assets are reflected in its investment in capital assets, less any related debt used to acquire those assets. The Library uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The following table compares key financial information in a condensed format:

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 803,752	\$ 904,922
Capital Assets, net	258,581	418,922
Total Assets	<u>\$ 1,062,333</u>	<u>\$ 1,323,844</u>
Long-Term Debt	\$ 50,797	\$ 93,372
Other Liabilities	785,429	711,609
Total Liabilities	<u>\$ 836,226</u>	<u>\$ 804,981</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 199,494	\$ 331,245
Unrestricted	151,213	187,318
Total Net Assets	<u><u>\$ 350,707</u></u>	<u><u>\$ 518,563</u></u>
Revenues:		
Taxes	\$ 688,209	\$ 654,946
Other	235,461	236,429
Total Revenues	<u>\$ 923,670</u>	<u>\$ 891,375</u>
Expenses-Library services	<u>1,091,526</u>	<u>933,876</u>
Change in Net Assets	<u><u>\$ (167,856)</u></u>	<u><u>\$ (42,501)</u></u>

The unrestricted net assets of \$151,213 may be used to meet the Library's ongoing obligations to citizens and creditors.

At the end of the current year, the Library is able to report positive balances in both categories of net assets for its governmental activities.

The Library's net assets decreased by \$167,856 mostly from increased depreciation costs and uncapitalized capital outlay, as well as, slight increases in payroll costs and the related benefits.

The Library's governmental revenues increased by \$32,295 and expenses increased by \$157,650 during the year.

GOVERNMENTAL FUND ANALYSIS

As noted earlier, the library uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Fund. The focus of the Library's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Library's governmental fund reported ending fund balance of \$157,304, a decrease of \$36,009. All of the fund balance constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The general fund is the only operating fund of the Library.

LIBRARY BUDGETARY HIGHLIGHTS

The following significant differences between the original budget and the final amended budget are as follows:

Final budgeted revenues increased over original by \$34,799 as penal fines and other local dollars came in higher than expected.

Final budgeted expenses increased over original by \$62,731 attributable to higher costs to automate the total library operating system.

CAPITAL ASSETS AND DEBT ADMINISTRATION

During current year, the Library invested in capital assets for its governmental activities of \$37,408 (before depreciation). This investment includes a broad range of capital assets, including library books, audio, buildings, furniture, and computer equipment. The Library expects that additions for 2006 will be the same or slightly lower than 2005.

LONG-TERM DEBT

At December 31, 2005, the Library had total debt outstanding of \$65,178. This consisted of \$59,087 owed on a note and \$6,091 of accrued vacation, with no new debt incurred during the year. The Library did pay an additional \$20,000 of principal during the current year.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Library's goal is to maintain and enhance the services that are provided to the public utilizing the most efficient and effective methods. The Library has a conservative and financially prudent budget for the 2006 calendar year that will promote several of the Library's activities and programs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cass District Library, 319 M-62; Cassopolis, Michigan 49031.

Balance Sheet – Statement of Net Assets
December 31, 2005

	<i>General Fund</i> Balance Sheet- Modified <u>Accrual</u>	Adjustments (Note 2)	<i>Library as a Whole</i> Statement of Net Assets- <u>Full Accrual</u>
Assets			
Cash and cash equivalents (Note 3)	\$ 93,552	\$ -	\$ 93,552
Investments (Note 3)	124,600	-	124,600
Receivables (Note 12)	710,200	-	710,200
Capital Assets-Net of Accumulated Depreciation (Note 5)	<u>-</u>	<u>258,581</u>	<u>258,581</u>
Total Assets	<u><u>\$ 928,352</u></u>	<u><u>\$ 258,581</u></u>	<u><u>\$ 1,186,933</u></u>
Liabilities and Fund Balance/Net Assets			
Liabilities			
Accounts Payable (Note 12)	\$ 43,925	\$ -	\$ 43,925
Accrued Payroll and Liabilities	16,923	-	16,923
Deferred Revenue	710,200	-	710,200
Long-Term Debt, current portion	<u>-</u>	<u>14,381</u>	<u>14,381</u>
Total Current Liabilities	\$ 771,048	\$ 14,381	\$ 785,429
Long-Term Debt, net of current portion	<u>-</u>	<u>50,797</u>	<u>50,797</u>
Total Liabilities	<u><u>\$ 771,048</u></u>	<u><u>\$ 65,178</u></u>	<u><u>\$ 836,226</u></u>
Fund Balance/Net Assets			
Unreserved Fund Balances:			
Designated for vehicle purchase	9,000	\$ (9,000)	\$ -
Designated for vacation accrual	14,934	(14,934)	-
Designated for technology	16,000	(16,000)	-
Designated for capital improvements	10,000	(10,000)	-
Designated for main library	15,000	(15,000)	-
Undesignated	<u>92,370</u>	<u>(92,370)</u>	<u>-</u>
Total Fund Balance	<u><u>\$ 157,304</u></u>	<u><u>\$ (157,304)</u></u>	<u><u>\$ -</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 928,352</u></u>	<u><u>\$ (92,126)</u></u>	
Net Assets			
Invested in Capital Assets-Net of Debt		\$ 199,494	\$ 199,494
Unrestricted		<u>151,213</u>	<u>151,213</u>
Total Net Assets		<u><u>\$ 350,707</u></u>	<u><u>\$ 350,707</u></u>

CASS DISTRICT LIBRARY**Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities
December 31, 2005**

	<i>General Fund Revenues and Expenditures- Modified Accrual</i>	<i>Adjustments (Note 2)</i>	<i>Library as a Whole Statement of Activities- Full Accrual</i>
Revenues:			
Taxes	\$ 688,209	\$ -	\$ 688,209
State Sources	31,330	-	31,330
Penal Fines	159,264	-	159,264
Fees and Book Fines	3,831	-	3,831
Investment Income	10,103	-	10,103
Local Contributions and Other	40,733	(9,800)	30,933
	<u>\$ 933,470</u>	<u>\$ (9,800)</u>	<u>\$ 923,670</u>
Expenditures:			
Salaries	\$ 396,374	\$ 96	\$ 396,470
Payroll taxes	28,595	-	28,595
Employee benefits	87,085	-	87,085
Staff training	4,442	-	4,442
Office supplies	13,386	-	13,386
Audiovisual, books, and periodicals	91,557	-	91,557
Professional fees	11,900	-	11,900
Contractual services	41,593	-	41,593
Membership and recruitment	10,557	-	10,557
Internet service	12,144	-	12,144
Insurance	13,096	-	13,096
Processing costs	9,699	-	9,699
Travel	4,136	-	4,136
Programs	7,391	-	7,391
Utilities	56,669	-	56,669
Repairs and maintenance	27,867	-	27,867
Miscellaneous	329	-	329
Automation	81,020	-	81,020
Principal payments	28,290	(28,290)	-
Interest payments	5,941	-	5,941
Depreciation	-	187,649	187,649
Capital expenditures	37,408	(37,408)	-
Total expenditures	<u>\$ 969,479</u>	<u>\$ 122,047</u>	<u>\$ 1,091,526</u>
Excess (deficit) of revenues over (under expenditures)	<u>\$ (36,009)</u>	<u>\$ (131,847)</u>	<u>\$ (167,856)</u>
Fund Balance/Net Assets-Beginning of Year	<u>193,313</u>		<u>518,563</u>
Fund Balance/Net Assets-End of Year	<u><u>\$ 157,304</u></u>		<u><u>\$ 350,707</u></u>

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cass District Library (the “Library”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

The Library has implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (“GASB 34”). Some of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Library’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

Reporting Entity

The Library is located in the Village of Cassopolis, Michigan and is governed by an eight (8) member board. The Library is primarily funded through a tax levy, fines, fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying basic financial statements have been prepared in accordance with criteria established by GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. The Library is a District Library formed pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the Townships of LaGrange, Howard, Mason, the Village of Edwardsburg, and the County of Cass. Based on the significance of any operational or financial relations with the Library, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library’s basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library’s major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Government-wide Financial Statements, Continued**

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts: invested in capital assets--net of related debt; restricted net assets; and unrestricted net assets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

The **General Fund** is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Assets, Liabilities, and Net Assets or Equity

Capital Assets – Capital assets are defined by the Library as assets with an estimated useful life in excess of one year and exceed \$2,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**Assets, Liabilities, and Net Assets or Equity, Concluded****Capital Assets, Concluded**

Building improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Buildings	20 – 50 years
Building improvement	10 – 20 years
Furniture and fixtures	5 – 10 years
Library books, periodicals, etc.	10 years
Equipment	5 – 10 years

Compensated Absences (Vacation and Sick Leave) – It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Property Taxes – Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year, at which time the Library recognizes the levy. These taxes are due on February 15 with the final collection date of February 28, starting March 1 before they are added to the county tax rolls.

NOTE 2. RECONCILIATION OF GOVERNMENT – WIDE AND FUND FINANCIAL STATEMENTS

Total fund balances and the net change in fund balances of the Library's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and net change in fund balances to the net change in net assets:

NOTE 2. RECONCILIATION OF GOVERNMENT – WIDE AND FUND FINANCIAL STATEMENTS, CONCLUDED*Adjustments for Balance sheet to Statement of Net Assets:*

Total Fund Balance-Modified Accrual Basis	\$ 157,304
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	258,581
Long-term liabilities are not due and payable in the current period and are not reported as a liability	(59,087)
Compensated absences are included as a liability	(6,091)
Total Net Assets-Full Accrual Basis	<u><u>\$ 350,707</u></u>

Adjustments for Statement of Revenues and Expenses to Statement of Activities:

Net Change in Fund Balance-Modified Accrual Basis	\$ (36,009)
Amounts reported in the statement of net assets are different because:	
Capital outlay is not an expense of the current period	37,408
Capital costs are allocated over their estimated useful lives as depreciation	(187,649)
Change in the accrual for long-term compensated absences reported as an expenditure in the statement of activities but not in the fund statements	(96)
The proceeds from the sale of land are reported as revenue in the governmental funds. However, in the statement of activities, the cost of the land sold is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "loss on sale of land" in the statement of activities. Thus, more revenue is reported in the governmental funds than loss in the statement of activities.	(9,800)
Repayments of note principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	28,290
Change in Net Assets of Governmental Activities	<u><u>\$ (167,856)</u></u>

NOTE 3. DEPOSITS AND INVESTMENTS

At December 31, 2005, the Libraries deposits and investments include the following:

	Cash and Cash Equivalents	Investments
Cash on hand	\$ 450	\$ -
Bank deposits	93,102	-
Investments	-	124,600
Total	<u>\$ 93,552</u>	<u>\$ 124,600</u>

Bank Deposits – All cash of the Library in on deposit with financial institutions which provide FDIC insurance coverage.

Custodial Credit Risk-Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of December 31, 2005, \$842 of the Library's bank balance was exposed to custodial risk because it was uninsured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name. The Library does not have a deposit policy for custodial credit risk.

Investments – The Library is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

	Fair Value	Current Value	Investment Maturities		
			1-5 Years	6-10 Years	More than 10
Money Market Funds	<u>\$124,600</u>	<u>\$ 124,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Library does not have a policy for interest rate, credit, concentration of credit, or custodial risk relating to investments.

Foreign Currency Risk: The Library is not authorized to invest in investments, which have this type of risk.

NOTE 4. BUDGET INFORMATION

The annual budget is prepared by the Library Director and adopted by the Library Board of Trustees; subsequent amendments are approved by the Library Board of Trustees. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget statement (statement of revenue, expenditures and changes in fund balance – budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations of the General Fund budget, as adopted by the Library Board, is available at the Library for inspection.

NOTE 4. BUDGET INFORMATION, CONCLUDED

Excess of Expenditures Over Appropriations in Major Budgeted Funds—During the year, the Library incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

	Amended <u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries	\$ 392,000	\$ 396,374	\$ (4,374)
Audiovisual, books, and periodicals	90,100	91,557	(1,457)
Membership and recruitment	10,000	10,557	(557)
Internet service	12,000	12,144	(144)
Processing costs	7,700	9,699	(1,999)
Automation	50,000	81,020	(31,020)
Capital expenditures	30,000	37,408	(7,408)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and had no impact on the financial results of the Library.

Fund Deficits—The Library has no accumulated fund balance deficits in their reported funds.

NOTE 5. CAPITAL ASSETS

Capital asset activity of the Library's governmental activities was as follows:

	Balance <u>1/1/2005</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>at 12/31/05</u>
<u>Assets not being depreciated:</u>				
Land	\$ 23,007	\$ -	\$ (9,800)	\$ 13,207
<u>Depreciable capital assets:</u>				
Building and improvements	\$ 151,291	\$ -	\$ -	\$ 151,291
Furniture and fixtures	37,965	2,536	-	40,501
Equipment	56,118	34,872	-	90,990
Books, audiovisual, periodicals	1,686,012	-	-	1,686,012
Subtotal	\$ 1,931,386	\$ 37,408	\$ -	\$ 1,968,794
Less: Accumulated Depreciation	(1,535,771)	(187,649)	-	(1,723,420)
Net depreciable capital assets	\$ 395,615			\$ 245,374
Net capital assets	\$ 418,622			\$ 258,581

Capital assets, including library books, are recorded at cost. Depreciation expense was \$187,649 for the year ended December 31, 2005.

NOTE 6. LONG-TERM DEBT

Long-term debt is comprised of the following at December 31, 2005:

	Interest <u>Rate</u>	Principal <u>Matures</u>	Beginning <u>Balance</u>	Additions <u>(Reductions)</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Note Payable	6.80%	9/1/2015	\$ 87,377	\$ (28,290)	\$59,087	\$ 8,290
Accrued Vacation	n/a	n/a	5,995	96	6,091	6,091
			<u>\$ 93,372</u>	<u>\$ (28,194)</u>	<u>\$65,178</u>	<u>\$ 14,381</u>

Annual debt service requirements to maturity for the above obligations (excluding accrued vacation) are as follows:

Year Ended <u>December 31,</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 8,290	\$ 5,940	\$ 14,230
2007	8,290	5,940	14,230
2008	8,290	5,940	14,230
2009	8,290	5,940	14,230
2010	8,290	5,940	14,230
2011 to 2015	17,637	11,882	29,519
	<u>\$ 59,087</u>	<u>\$ 41,582</u>	<u>\$ 100,669</u>

Interest expense for the year ended December 31, 2005 amounted to \$5,941.

NOTE 7. LEASES

Operating Leases-The Library leases equipment under noncancellable operating leases. Total costs for such leases were \$18,052 for the current year, included with contractual services. The future minimum lease payments for these leases are as follows:

2006	\$ 14,918
2007	413
	<u>\$ 15,331</u>

In addition, the Library leases its main facility, located in Cassopolis, from the County of Cass for an annual cost of \$1 plus maintenance and repairs. Under the terms of the lease agreement, the Library was required to pay \$0 for 2005 to the County Treasurer to fund the replacement of capital items, but has designated \$15,000 of their net assets for this purpose. (See Note 11)

NOTE 8. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library obtains general liability insurance to cover those risks at a cost it considers to be economically justifiable.

NOTE 9. DEFINED BENEFIT PENSION PLAN**Plan Description**

The Library participates in an agent, multiple-employer defined benefit pension plan Municipal Employees' Retirement System of Michigan (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances, and post retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly-available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

Funding Policy

MERS members are required to contribute an amount varying from 0.0% to 10.0%, depending upon which plan they fall under. The Library is required to contribute at an actuarially-determined rate; the current rate is 0.0% to 21.08% of annual covered payroll, depending on the plan. The contribution requirements of plan members and the commission are established and may be amended by the MERS.

Annual Pension Cost

For the year ended December 31, 2005, the Library contributions were zero (0), which was made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined using the entry actual age cost method. Significant actuarial assumptions used included (a) 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent, attributable to inflation, and (c) 0 to 4.2 percent per year attributable to merit and longevity. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over a 30-year period.

NOTE 9. DEFINED BENEFIT PENSION PLAN, CONCLUDED

Three year trend information:

	For the year ended December 31:		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost ("APC")	\$ -	\$ -	\$ -
Percentage of APC contributed	-	-	-
Net pension obligation	-	-	-
Actuarial value of assets	\$ 597,486	\$ 615,738	\$ 632,588
Actuarial Accrued Liability ("AAL")(entry age)	359,526	399,699	393,656
Unfunded(Overfunded) AAL	(237,960)	(216,039)	(238,932)
Funded ratio	166.19%	154.05%	160.70%
Covered payroll	278,560	291,795	277,667
UAAL as a percentage of covered payroll	85.43%	74.04%	86.05%

NOTE 10. FUNDS HELD BY THE MICHIGAN GATEWAY COMMUNITY FOUNDATION

The Library is the beneficiary of endowment funds at the Michigan Gateway Community Foundation that are considered permanent endowments to benefit the Library. The endowments are within the Foundation and not part of the Library's General Fund. Investment earnings are reinvested into the endowment. The amount of the endowment funds held at Michigan Gateway Community Foundation in the Cass District Library Fund approximates \$1,054.

During the year, the Library did not withdraw past earnings on principal from the endowment funds held at the Michigan Gateway Community Foundation.

NOTE 11. DESIGNATED FUND BALANCE

Fund balance has been designated by the Board for the following purposes:

Vehicle purchase	\$ 9,000
Vacation accrual	14,934
Technology	16,000
Capital improvements	10,000
Main library	15,000
	<u>\$ 64,934</u>

NOTE 12. RECEIVABLE AND PAYABLES

Receivables as of December 31, 2005 for the Township's general fund consisted of \$710,200 of taxes receivable for next years levy.

Payables as of December 31, 2004 for the Township's general fund consisted of \$43,925 of normal trade payables.

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplemental Information
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2005

	Originally Adopted <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 682,121	\$ 688,121	\$ 688,209	\$ 88
State Sources	29,000	31,330	31,330	-
Penal Fines	147,000	159,264	159,264	-
Fees and Book Fines	3,500	3,500	3,831	331
Investment Income	3,000	7,000	10,103	3,103
Local Contributions and Other	34,050	39,567	40,733	1,166
	<u>\$ 898,671</u>	<u>\$ 928,782</u>	<u>\$ 933,470</u>	<u>\$ 4,688</u>
Expenditures:				
Salaries	\$ 397,000	\$ 392,000	\$ 396,374	\$ (4,374)
Payroll taxes	32,371	29,988	28,595	1,393
Employee benefits	91,700	87,285	87,085	200
Staff training	5,500	5,500	4,442	1,058
Office supplies	16,700	16,700	13,386	3,314
Audiovisual, books, and periodicals	85,700	90,100	91,557	(1,457)
Professional fees	16,600	16,000	11,900	4,100
Contractual services	24,000	42,000	41,593	407
Membership and recruitment	10,000	10,000	10,557	(557)
Internet service	13,000	12,000	12,144	(144)
Insurance	15,000	15,000	13,096	1,904
Processing costs	5,600	7,700	9,699	(1,999)
Travel	8,800	6,000	4,136	1,864
Programs	9,000	8,600	7,391	1,209
Utilities	60,750	62,000	56,669	5,331
Repairs and maintenance	23,600	31,500	27,867	3,633
Miscellaneous	560	560	329	231
Automation	20,000	50,000	81,020	(31,020)
Debt payments	14,231	34,231	34,231	-
Capital expenditures	56,636	30,000	37,408	(7,408)
Total expenditures	<u>\$ 906,748</u>	<u>\$ 947,164</u>	<u>\$ 969,479</u>	<u>\$ (22,315)</u>
Excess of revenues over expenditures	<u>\$ (8,077)</u>	<u>\$ (18,382)</u>	<u>\$ (36,009)</u>	<u>\$ (17,627)</u>
Fund Balance-Beginning of Year	<u>193,313</u>	<u>193,313</u>	<u>193,313</u>	<u>-</u>
Fund Balance-End of Year	<u><u>\$ 185,236</u></u>	<u><u>\$ 174,931</u></u>	<u><u>\$ 157,304</u></u>	<u><u>\$ (17,627)</u></u>